Commodity Futures trading using Technical Analysis, a guide to Making Money

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Making money commodity futures trading using technical analysis, what is it all about?

People are attracted to the futures markets as a means of making fast money. Most lose their money along the way. Why? The reasons are many and varied. Here are a few answers that may help budding traders keep their money and make some more.

LEVERAGE

The Leverage in commodity futures trading allows one to use a small amount of money as a deposit to control a much larger amount of money. For example for $1,000 it is possible to control 100 ounces of gold. If the price were to move up or down $10 an ounce then the $1,000 deposit would be doubled or completely lost depending on the position taken, that is long or short. This brings me to risk.

RISK

In the above example if a trader has only $1,000 available for futures trading then the risk taken is 100% and it would be foolhardy to take such a trade. However if the trader had $100,000 at their disposal then the risk on a $1,000 loss is only 1%.

With a 1% risk a trader could afford to be wrong 10 times and have lost 10% of their money as opposed to the above example of a 100% risk on one trade and losing all money on this one trade. Risk levels can also be reduced by using stop loss points.

STOP LOSS POINTS

A stop loss point can limit the risk. If the market moves against the trader a predetermined amount then the trade can be closed out and so limit the loss. Stoploss points should always be decided before positions are opened as traders tend to have a bias once a position is opened and begin to justify why the market will go their way. In the examples above the gold trader with only $1,000 could limit the loss to $500 and so reduce the risk from 100% to 50%. On the other hand the trader with $100,000 could reduce their risk to 0.5% using the same method. Sometimes there is a fast market and the stoploss point may be exceeded increasing the loss in excess of the predetermined amount. This is called slippage.

SLIPPAGE

This needs to be taken into account when deciding where to place a stop so that any slippage is allowed for when determining risk levels. Markets vary in the numbers of trades taking place this is called liquidity.

LIQUIDITY

Liquidity is a function of volume. Higher volumes tend to produce tighter bid ask spreads that is the difference between the bid and ask prices. There is likely to be less slippage on markets with high liquidity however all markets produce slippage from time to time.

EXPERIENCE

Markets can be categorised broadly into three types, trending up, trending down and moving sideways. Unfortunately trading methodologies that work well in trending markets tend to do poorly in sideways markets and methodologies that do well in sideways markets tend to do poorly in trending markets. Some experience is needed here. Brain surgeons require some extensive training to master their art, however it is surprising how many people believe that they can master the art of trading by walking off the street into a brokers office with a pocketfull of money. It is best to start small, keep your risk low (under 3%) and trade with the trend. when you have made some money from the market it is time to slowly increase the size of your trades.

EMOTIONS

Keep emotions out of your trading. The emotions of greed and fear are very real in the markets. The fear emotion being much more powerfull than the greed. This may explain why markets tend to go down faster than they go up. Have a plan, be

disciplined, follow the plan and leave the emotional trading to others.

KNOW THYSELF

So you've decided to have a go with $10,000 that you have. You find a market to trade and go long. The deposit requirement is $2,000 so that leaves $8,000 to cover the market moving against you. For some unexplained reason you decide to wait to see what happens before putting in place a stop loss order, but you make a mental note that you will close out if it moves more than $2000 against you. Unfortunately some bad news hits the market while you were out and before you realise it the market is $3,000 against you. As it has gone past the point at which you intended to close out you decide to wait until the next day for a rally at which point you will close out when it rallies back up $1,000. On opening the next day the market gaps down and you suddenly find yourself another $2,000 out of the money. You have now lost half your money and decide to cut your loses. Just after you close out your posion the market rallies back up another $3,000.If only you had waited you think. The market continues to rally and you decide that you had the direction right after all. You have now only $5,000 but you decide to go long for two lots. That way you will then quickly make up the money that you lost the previous day. Again you fail to put in a stop loss order but make a promise to yourself that you will watch the market closely for the rest of the day. As soon as you go long the market begins to fall and it falls right down below the low of the previous day. You are now losing money at twice the rate of the previous day . In fact you have lost all your money plus an additional $1,000. You decide that trading is not for you and give it away as a bad idea.

CHOICE

It does not have to be as in the example above but it often is. Drivers tend to drive on the right side of the road as opposed to the wrong side it is easier that way. Swimming downstram is easier that upstream. For some reason many traders make it hard for themselves by taking too bigger risks and fighting the markets. It does not have to be that way you have choices. You have choices about how much leverage you use and how much risk you take on both as a percentage of trading capital and in absolute terms.

TRADING

If you are serious about trading your own account, then have a look at The Technical Trader™.
The Technical Trader™. covers some of the issues discussed above about making money commodity futures trading using technical analysis.

CLICK HERE TO RECEIVE A FREE COPY or TRIAL.

THERE IS A RISK OF LOSS IN FUTURES TRADING

The Technical Trader™

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e-mail: trader@cartwheels.co.nz

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Show Slippage as - Positive +

Slippage Analysis Screen

Total Slippage Opening >	$183.50	Total Slippage Closing >	$102.50
Opening Trades Included >	8	Closing Trades Included >	2
Average Slippage Per Trade Opening >	$22.94	Average Slippage Per Trade Closing >	$51.25
Opening Contracts Included >	10	Closing Contracts Included >	4
Average Slippage Per Contract Opening >	$18.35	Average Slippage Per Contract Closing >	$25.63

Futures And Options Trades

	Trade	Number of Contracts	Opening Trade Date	Opening Order Placed at	Order Filled at	Slippage Points per Contract	Slippage Money	Closing Trade Date	Closing Order Placed at	Order Filled at	Slippage Points per Contract	Slippage Money
11	Gold 390c	-1	24-Oct-99		6.900			13-Mar-00		0.000		
13	Gold	1	11-Mar-00		355.000			16-Mar-00		350.000		
14	Feeder Cattle 66p	-1	27-Jan-00		0.750			23-Mar-00		0.650		
15	Live Cattle	3	20-Mar-00	63.720	63.750	0.030	$36.00	01-Apr-00	64.400	64.325	0.075	$90.00
16	Wheat	1	15-Dec-02	245 3/4	246	1/4	$12.50	24-Feb-03	266 3/4	266 1/2	1/4	$12.50
17	US Treasury Bonds	1	01-Feb-00	92.700	92.800	0.100	$100.00					
18	Wheat	1	01-Feb-00	257 3/4	258	1/4	$12.50					
18	Wheat	1	05-Feb-00	257 3/4	257 3/4	0	$0.00					
19	Corn	1	07-Feb-00	221 1/2	221 3/4	1/4	$12.50					
20	Live Cattle	1	07-Feb-00	72.475	72.500	0.025	$10.00					
20	Live Cattle 69put	1	25-Feb-00	0.300	0.300	0.000	$0.00					
21	S&P 500	1	24-Jul-00		1,468.100							

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Slippage is where a trade order is not filled at the chosen (order) price. Lets say that you place an order to buy one wheat contract at 220 on a stop. The price of wheat has been in the 210 - 215 range and your analysis indicates that a price rise is likely to occur. So you place an order to buy (go long) one contract of wheat, but only if the price gets up as far as 220. You think that if the price reaches 220 then the upward move is under way and it's time to be a buyer. So your order is in the market waiting for 220. But - the wheat market experiences a sudden price rise and your order - although placed at 220 - becomes a market order once 220 is reached. However the price rise is fast and your order is not filled until the price reaches 225. This means that you bought a contract of wheat from a seller and you paid him 225 for that contract.

However - your order was placed a 220 and so your slippage on this trade was 5c. In the wheat market 5c is equivalent to $250, and so your account has been subject to $250 of slippage.

With The Margin Account Calculator you can easily assess the slippage on each and every trade, as well as getting an average for slippage for each market traded.

With this information you might decide that your broker is not being effective enough at executing your orders, or that some markets are subject to too much slippage.

Do you trade the Futures Markets or trade Options on Futures?

If you have a Margin Account and you are still using paper records or a simple spreadsheet to record your trades, then you need to Automate your record keeping.

Winning The Futures Game

Futures trading is said to be **high risk**. The leverage available in the futures markets brings the potential for large rewards, but when combined with the volatile nature of the markets, this type of investment is not without risk. Futures trading is suitable for those with sufficient risk capital and a personality that can accept the degree of risk. The rewards, however, can be massive.

There are many traders who are **extremely successful** and make a **regular profit** from the futures and options markets. While about 90% of traders who enter the futures markets will lose their risk capital and stop trading the remaining 10% are left to make a large and regular profit.

How do you become one of the elite 10% who win?

In order to learn how to be a winning trader you need to look at what successful traders do.

- They all trade with a plan.
- They accept that not all trades will be winners.
- They analyze every trade and keep accurate records.
- They know how much to risk on every trade.
- They never make the same mistake twice.

There is a free report available by email entitled

- Why Futures Traders Lose Money
- Basic Futures Trading Skills.
Click here for your free report

To lose one trade does not mean that you lose the war. Minimize your losses and let your profits run and you will do better than the 90% of losers. Learn from your past mistakes and savor your victories. This is very easy to say, but hard do. You've probably heard it said a thousand times. In reality, however, it requires a knowledge that is only acquired by hard work.

The Challenge

There is a challenge facing traders in the futures and options markets (apart from the markets themselves). To analyze your trading, and learn from past winners and losers, you are going to need a suitable tool. A tool which allows you to analyze your trades - letting you to learn from past mistakes. By keeping only the tactics that allow you to profit you will become one of the **winners**.

Ask yourself - **How** do I analyze my trades at the moment?

The Solution

A unique new tool is now available. The Margin Account Calculator has been created to give you all the information you need to be a successful, ***winning***, trader. It is the ultimate trading tool for today's futures and options trader.

Traders will need a tool that will do the following -

- Ease of use
- Track **both** futures and options
- Eliminate Calculation Errors
- Increase Trade Record Accuracy to 100%
- Keep track of your orders
- Handle multiple trades
- Deal with partial profit taking
- Allow easy checking of Brokers Statements
- Use data files to update Open Positions

- Prepare Statistical Analysis of your trading
- Cater for any currency
- Track trades on any of the Worlds Futures Markets
- Link with Live Data feeds via DDE.

Why do you need software to track your trades?

If you don't have a dedicated program to record your trading, you're probably using paper and calculator or perhaps a simple spreadsheet to record your trading data. If so then you're not getting all the information that you **need** to be successful in today's financial marketplace.

The Margin Account Calculator was designed **specifically** to cater for the needs of the **individual** trader, no matter how **large** or **small** the trading account, or how **frequently** you trade.

There is a FREE demo version of The margin Account Calculator available for you to try. Test the powerful features for yourself.
Click here for your FREE Demo

Lets face it - the more time spent recording trades, *and calculating profits*, the less time you have to spend on the important task of analyzing the markets and creating a trading strategy for the next days trading. All winning traders know exactly what they will be doing the next day, with contingency plans in place to cater for all eventualities. Wouldn't it be powerful to know

- How much to risk on a trade
- How many contracts to take
- How much you are risking if the trade goes against you
- When to take partial profits
- When to get out?

A good trading analysis tool should give you all of this information (and more) in an instant.

Options trading

The Margin Account Calculator will cater for both options and futures trading in the same program.

You can:

- Trade futures with an option to cover losses.
- Trade any of the **numerous** option strategies that are around.
- Trade both long and short option positions.
- Trade futures only.
- Trade options only.

The Margin Account Calculator will cater for all combinations of options and futures trading.

End of day data files

The Margin Account Calculator is compatible with a selection of End of Day data formats, including several FREE sources available for direct loading on the internet.

The data file is loaded into the program and used to update your current portfolio on an *End of Day* basis. This is ideal for position trading as well as for day traders who need to update their account information at the end of each trading day.

Live data links

The Margin Account Calculator will allow direct access to live data feeds such as

- CQG
- Quote.com (qfeed)
- Omega server
- Futuresource

Using your live data feed - it only takes one click to link your live data directly into MAC. You will be able to see your portfolio updated in real time.

Click here to see the live data link in action

Statement checking made easy

Brokers love to send lots of statements. Every day you place a trade you will get a statement in the mail the next day. Checking these statements is time consuming without the right software. The Margin Account Calculator makes it easy. In my own trading I would frequently glance at the statement, assume it was OK and file it away. That's all right until an error crops up that you let slip by unnoticed. This happened to me once, before I created The Margin Account Calculator - I thought I was long in the gold market but my broker had sold gold when I wanted to buy! Needless to say I didn't notice this on my statement until it was too late. It took me a lot of time to resolve the problem with my broker. This no longer happens because now I check all of my statements, as soon as they arrive, in next to no time.

Click here to see the statement checking screen in action

How much are you risking?

Do you know how much you are risking at any one moment on all of your open positions? With MAC you enter the details of all current stop loss orders. In an instant you can see the status of your account. A chart will show you the following vital information.

- Current Margin Required.
- The Open Equity on your trades.
- The Account Open Risk.
- The Risk Based Funds you have available to trade.

With this information you can easily see what is going on. **Money Management** is vital to becoming a successful trader. MAC provides you with all the information you need to trade with a winning **Money Management strategy**.

Click here to see the risk management screen in action

Slippage analysis

Can you tell how much slippage your trade orders are subject to? By this I mean the difference between the price an order was placed at (the order price) and the price you were filled at. Click here for an explanation of slippage

Wouldn't it be **powerful** to know that a certain market was giving you unacceptable slippage? With this knowledge you could decide, for example, to change your order tactics (maybe use limit or stop limit orders instead of stop orders). You might even decide to change markets if the exchange will not accept the order strategy you need. If you had never analyzed slippage then you would never have known.

Click here to see the slippage analysis screen in action

What is your Risk : Reward ratio?

Risk reward is the ratio of profit gained vs. initial risk taken on a trade. Lets say, for example, that your initial stop loss (risk) was placed at $500 and you gained $1000 on the trade. The risk reward ratio would be 2:1 - i.e. 2 units gained over the 1 unit risked. With MAC you can easily analyze risk reward ratios and this can include all currently open trades as well as the 'closed risk multiple' for all closed positions.

Click here to see the risk reward analysis screen in action

Charts

Trading analysis is sometimes easier to visualize with charts of the data that you have entered. There are many charts available in The Margin Account Calculator to make trade analysis easier to visualize.

Click here to see some of the charts available

Try the Free Demo Version

To try out The Margin Account Calculator for yourself Click here

The demo is a Full Working Version of the full program, limited to 10 trades. This will allow you to see for yourself the great features included to help your trading analysis.

To Order The Margin Account Calculator

To order the full version of The Margin Account Calculator Click here

- You get a first class product at the best price
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- Order now and get my lifetime ***satisfaction guarantee***.

Guarantee

If the Margin Account Calculator does not track your trades in the way you want then I will give you your money back - No questions asked.

Click here to order online now

About the author

My name is Ian Brant, and as an individual trader in the futures markets since 1996, I found that I required a simple and effective way to record and analyze my trading. I looked, and found a few programs (3 to be exact) that were reasonably priced. Unfortunately non of them had **all** of the features that I required, and so using the popular and powerful Excel spreadsheet I created The Margin Account Calculator (MAC). I have used MAC to record all of my own trading since that time, and now many others from small individual traders to fund managers from professional traders to CTA's are also finding the valuable benefits of using such a simple to understand and effective, ***yet powerful***, program.

The Margin Account Calculator © is an **invaluable** tool for any trader in the futures and options markets.

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SLIPPAGE, REAL AND IMAGINED

Slippage, Real and Imagined
by Jonathan Matte of DCM, Inc.

There are two kinds of slippage. One is real and one isn't. In general, slippage is defined as the difference between a price determined by the trader, and the price that actually occurs on the exchange floor. That is, I say, "Buy Soybeans at 662.50," but then I find out I was filled at 663.00, two ticks off my price. The two ticks is called slippage. You see this most commonly referred to when people are simulating real trading on paper (e.g. "I bought Soybeans at 663.00 plus two more ticks for slippage"), and when traders are unhappy with the fill they just got in a market.

First of all, how is this possible? Well, unless you give the trading floor a limit order (e.g. "Buy Soybeans at 662.50 OR LOWER"), you're not requiring that you get a particular price. A market order is executed at whatever the market determines the price to be when your order arrives. If you use a stop order, then when the market trades at your price, your stop becomes a market order and it gets filled at the current market price. It's a deviation in price from some preset price or expectation you have about the market. Since markets are often dynamic places, prices change a lot from minute to minute, and that brings me to my first point.

If you use a straight market order, there is no such thing as slippage. There really isn't. You are walking onto the floor of the exchange and saying, "I want to buy these Lean Hogs right now." The guy on the floor charges you some price for your contract and you walk away. If you don't mention a price to him, you can't complain that the price slipped on you, by definition. The price doesn't match what your broker told you? Seconds or minutes have passed; you weren't trading in the same market. The price doesn't match what's on your quote screen? "Real-time" feeds run several seconds behind the action on the exchange floor, and the prices are dependent on humans to report them. In high-activity markets, the quote feed may or may not be correct. There ARE cases where mistakes are made (either real mistakes or on-purpose mistakes) that cost you ticks, but that's called greed or mistakes, not slippage. Since you didn't have a pre-determined price that the market cares about, you can't have slipped from that price. This goes for all market orders (including market-on-open and market-on-close).

Now, if you use a stop order it's a different story. If you have an order to buy Soybeans at 663.00 on a stop (with the market below that price), when the price trades up and into (or past) 663.00, your order converts to a market order

and you get filled at whatever the market will take.
If the market moves up past your stop order, you'll probably get filled higher than 663.00. THAT is slippage, where you had a target price but you didn't get it.
Is the market obligated to get your price on a stop? No; your stop price is what triggers the market order, and because the order is a market order, you get whatever price the market assigns you. Slippage is extremely common on stop orders; the degree of slippage is generally determined by how fast the market is moving when it hits your stop price. Can you get a good fill on a stop order? Sure; suppose at the instant somebody filled an order to go long one contract of next year's Soybeans at 663.00, another order came in to sell 2,000 contracts at the market. Your stop order, triggered by the trade at 663.00, will likely get filled a little lower than your stop price. Do you call a fill at 662.00 on a 663.00 stop slippage? No; you call that "an exceptional fill" because you're happy.

The one and only way to avoid slippage is through the use of limit orders, where you say "Buy Soybeans at 663.00, no higher," or, "Buy Soybeans between 663.00 and 663.50" depending on what side of the market you're on. Then, you're demanding a specific and limited price, and you CAN'T get slippage on that because you've pre-declared the worst price you're willing to accept.
Of course, you might not get filled at all if no one is willing to buy or sell at your required price, but if you do get filled, it has to be at your limit price or better. If you put in a limit order and your broker has the temerity to call you with a fill that's worse, have him go back and get the correct information because somebody made a mistake.
Not a cosmic or heretical essay this time; just a clarification that you need to tell somebody you're expecting a certain price before you can say that your fill price slipped from that expectation.
Everything else is just an "unfortunate fill".

Lorenzo V. ik2hlb@venus.it

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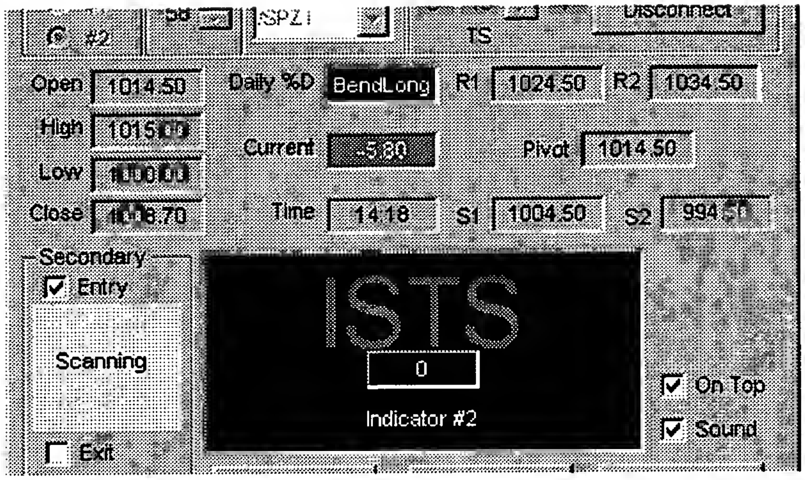

All Allegro Systems are supported by a computerized trading platform Systems Technology. The proprietary mathematical calculations are de reversal points of market tops and bottoms in a defined time frame. M tools used in today's markets have their strengths as well as their defic Many don't use these tools because it can become overwhelming to de most don't have time to learn them all. The Allegro trading systems, software applications, eliminate the need for learning the calculations simply execute trades.

Cash Management

An integral part of the Allegro Trading Systems program is correct formulas calculate proper risk levels based on your account size, and th applied to equity versus earnings.The cash management strategies, taug will define the appropriate intervals to adjust the size of your position. I appropriate time to make cash withdrawals from your trading account i success.

When reviewing historical trade data of a selected system it is important attainment of these results reflects the proceeds of trading only one p properly with a sound cash management strategy, the results can be stag

Discipline

The best trading system in the world, combined with proper cash mana the absence of proper trading disciplines. Too often, trading decision emotions: gut feel, fear and greed. Emotional decisions are the wors decision making process. You'll find yourself on a continuous roller c profits and losses, unsure of what contributed to either. Emotional t Allegro courses stress the importance of proper trading discipline and pro

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This approach produces results. Emotions are easier to control when
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What opportunities can Allegro Trading Systems possibly brin

- Become a better investor to manage your financial assets.
- A career opportunity as a professional trader to trade your own a
- A career opportunity in the financial industry as a broker, money consultant and much more.
- An unlimited income opportunity, career opportunity or business

Why will ALLEGRO be a leader in the financial industry?

- ALLEGRO system courses are a step- by-step process on how to financial assets.
- ALLEGRO system courses are a revolutionary product.

We hope ALLEGRO TRADING SYSTEMS, INC. Is th
a successful journey for you.

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"Brokerage-Assisted Monitoring & Trading Progr

These authorized licensed brokers are experienced professional syst
trained by Allegro in all aspects of the Allegro Trading Systems and mon
program is called the "Brokerage-Assisted Monitoring & Trading Program

The Benefits of the "Brokerage-Assisted Monitoring & Trading P

- This program could benefit investors with a full-time job or busines the Allegro Systems to trade the market full-time.
- This program could benefit self-directed traders that are in the lear to be in the market using the Allegro Systems while learning.
- This program could benefit investors that miss good trading opport having the time to watch the market on a continuous basis.
- This program could benefit part-time traders that want to be in the a system that has a successful track record.
- This program could benefit traders that live in an area that has con transmission problems receiving trading data.
- This program could benefit traders that have problems duplicating results with minimum slippage.
- This program could benefit traders that have problems making freq

- This program could benefit traders that have discipline problems.

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Google Search

System trading the S&P500

STT,LLC

Monday, June 10, 2002

The SWINGER family: winning S&P500 futures trading systems

This site illustrates the performance of **SWINGER-1CSV** (hourly) and **SWINGER-2EOD** (end-of-day) systems. For more than one complete year, from October 2000, we have been issuing live signals for **SWINGER-1** here. It has now been in the forward testing mode for 2 years, and traded in front of the public for a full year and a half.
As for **SWINGER-2EOD,** we started issuing live signals in March 2001, and we shall go on with them till March 2002 at the least, or longer if we consider it necessary.
As usual, we shall (1) issue **forward trading signals** in the live mode according to **SWINGER-2**, but now we shall do it **24 hours in advance!** (2) record the trades in the tables and (3) calculate the systems' results for the convenience of future and present users.
If you like what you see, you can buy the systems (any one of them or both), with all the rules and logic **DISCLOSED COMPLETELY**. You are free to use **SWINGER** for your personal needs forever, improve it, optimise it, try it for other markets etc. If you don't like it, or it doesn't fit your current conditions, you walk away in search of another.

What makes SWINGER the best choice for swing-traders?

1) ***High profitability***: Only 11 of 49 months in test (33 of them out-of-sample, that is beyond the data range in which the system was designed and optimized!) have shown loss so far, while 38 were profitable! The average annualized rate of profit is well above 200% (not compound!). **Combine the two systems (Swinger-1 and Swinger-2), and you are on your way to double your trading capital every half-year!**
2) ***Low risk***: Each system shows a profit of >6 dollars per every dollar risked (combined, it's more than $12profit/$1risked!), which is a fantastic achievement and which is what the majority of commercial systems can not boast of.
3) ***Remarkable convenience and ease of use:*** All trades are to be executed on the close of an hour (day), and the price which triggers a trade is calculated on the basis of the previous hour's (day's) indicator values. You have a full hour to get ready for a trade, knowing exactly what you are waiting for!
4) ***Efficiency:*** you'll have to make just 5 to 8 trades with each system (on the average) a MONTH to achieve those outstanding results.
5) ***Minimization of slippage***: Your aim is not to catch up with the price running in your direction, but to execute your trade as closer to the close of an hour as possible. In this case, even if your shot is not too good, the chances are approximately equal that you will have POSITIVE slippage, not negative. In the long run, you might have zero slippage.
6) **FULL DISCLOSURE OF THE SYSTEM'S LOGIC AND RULES!** Only when you understand what you are doing, you may have full trust in your system which is paramount for success! NEW! Both Metastock and TS codes are now available for purchasers!!!

The said is true of both Swinger-1CSV and Swinger-2-EOD. The two systems are completely compatible, complementary and synergistic

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mailto:info@spb.addr.com

StockTeleTrade is a Moscow-based (Russian Federation) research and development, consulting and brokerage company.
It offers technical and consultative support to companies and individuals using the Internet to trade stocks and derivatives.

Trading futures involves risk of substantial loss.

Trading and Investing with the *ALMANAC VII* Trading System

So many system traders have written over the years requesting the inclusion of a trading system in "The $upertrader's Almanac" we introduced the "ALMANAC I" trading system in the 1996, 1st - Half Edition of "The $upertrader's Almanac".

The trading systems have been such a hit with systems traders we are now proud to repeat this popular presentation by announcing the inclusion of the "ALMANAC VII" trading system in "The 1999 $upertrader's Almanac - 1st Half edition".

The "ALMANAC VII" trading system, like previous "ALMANAC" trading systems, includes a $100 commission and slippage assumption and a few twists I don't think you've ever run across before in the construction of trading systems.

The trading systems are designed to keep you OUT of the market by only identifying the most opportune times of the year to trade when potential losses are small and potential rewards are HUGE!

The advantage is that a given amount of funds can be better DIVERSIFIED by cherry-picking only the best trades from several markets rather than watching capital depleted by the emotionally-draining process caused by those inevitable whipsaws and drawdowns most other trading systems experience.

Rather than include markets like silver and coffee that each seem to produce about 20 percent of the overall profit generated in most trading systems due to big moves that occurred many years ago, I have again decided to only include the most liquid of markets for each of the major groups (bonds, crude oil, Deutschmark, gold, soybeans, CBT wheat, sugar, and t-bills). This increased liquidity

means tighter bid/ask spreads and better fills for you.

The trading system algorithm is so simple it is explained on only two of the approximately 400 pages in this year's first-half edition of "The Almanac"...

... ANY SYSTEM TRADER CAN USE IT!

Further, the capital requirements and risk per trade are so low that even the smallest of system traders can participate.

In fact, if all positions were open at once (HIGHLY unlikely), the margin requirement would total less than $12,000 versus average annual net trading system profits of well over $12,000!!!

(Maximum margin for the "Almanac VI" trading system, for instance, was only $2,990 for all of 1997 and 1998.)

And once you've learned this simple, yet valuable, trading system algorithm, it will be at your disposal for the rest of your life...

... ready for you to employ at your whim and fancy with surgical precision to extract major moves from the markets !

So buy your very own personal copy of "The 1999 $upertrader's Almanac - 1st Half Edition" now and receive, included in the book, the "ALMANAC VII" trading system ...

... FREE ! ! !

(not to mention the $2,856 savings over those $3,000, less effective trading systems)

Frank Taucher

NOTE: "The 1999 $upertrader's Almanac" is offered in both a first-half and second-half edition so that more updated studies can be included in each edition.

The 1998 1st-Half Edition SOLD OUT FAST - so don't delay!

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How To Order

RETURN TO HOMEPAGE

Trading Smart

VECTOR

Volume 1 No. 2

Trading Smart is published periodically by Vector Partners LP of Norwalk CT, as an information resource for hedge fund and other portfolio managers looking for proven, reliable ways to reduce trading costs. For information about our highly customized, client-driven approach to portfolio trading, contact Simon Langdon at:

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Keeping Adverse Selection and Alpha Decay at Bay

A side-by-side comparison between Vector Partners' trading strategies and conventional strategies

By Simon Langdon, General Manager, Vector Partners, LP.

In a perfect world, every order in your daily portfolio basket would be sold at the daily "high" and bought at the daily "low." No portfolio trader, of course, can promise such a result, but this is not to say that your day-to-day trading costs are solely at the mercy of what is happening in the market (or in individual issues) on any given day. Trading methodology—how the trades get executed throughout the course of the day—can have a significant effect as well. The reason is rooted in the subtle but important ways that trading strategies affect the two most important factors in implementation costs: adverse selection and alpha decay.

A closer look

Let's define our terms.

Adverse selection refers, roughly speaking, to any buy order or sell order executed at a less-than-optimum price point in a given day's trading curve. ("Less than optimum" means that the price paid for a stock is *lower* at day's end than it was at the time of the buy, and the price received for a stock sold is *higher* at the end of the day than it was at the time of sale.) **Alpha decay** (often described as "slippage,") refers to what happens when the price of orders that have yet to be filled is moving away from the target price.

No trading methodology can thoroughly immunize a portfolio basket from adverse selection and slippage. But the systematic and proprietary trading methodologies developed by Vector Partners have been specifically created to reduce adverse selection and to keep alpha decay to a minimum, thus reducing the overall execution costs.

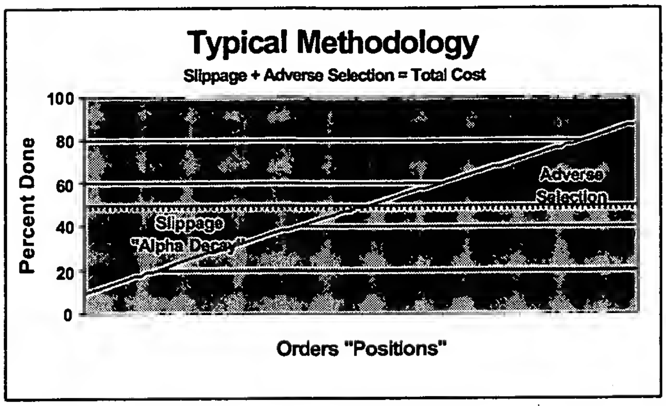
The trading methodologies we have developed at Vector Partners have been specifically created to reduce adverse selection and to keep alpha decay to a minimum

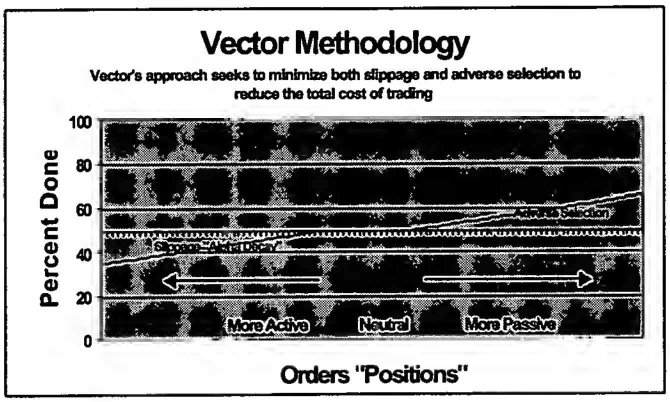
The Vector difference

The two charts on the opposite page illustrate the contrast between the levels of adverse selection and alpha decay produced by conventional trading strategies and those of Vector's trading methodologies. Both charts depict a point in time when the basket as a whole is "50 percent complete." As you can clearly see, however, the levels of alpha decay and adverse selection are significantly higher in the chart labeled "Typical Methodology."

(Continued from previous page)

The significant difference in the performance levels illustrated in these two charts lies in methodology—more specifically, the difference between Vector's highly customized, systematic approach to portfolio trading and the "one-size-fits-all," "bin-type" approach taken by the typical program desk.





What happens typically at most trading desks is that every portfolio, regardless of its characteristics, gets "sliced and diced" the same way This means that the number shares of each stock in the portfolio gets divided into slices that are submitted in waves of orders at regular intervals throughout the day.

What the charts show. The first chart to the left illustrates what typically happens as a result of this "one-size-fits-all" strategy. The portfolio at this moment in time may well be 50 percent complete, but there's a significant variance between the completion rate of individual stocks and the mean completion rate of the portfolio. What's more, the positions at this moment are made up primarily of "easy" orders—orders that were filled too quickly, thereby increasing adverse selection.

Meanwhile, the "hard" names—orders that aren't getting done because of the portfolio alpha—are moving away, causing slippage. The practical implications: higher execution costs and, in some instances, an altered risk profile.

Look now at the second of the two charts. Notice that with the same overall proportion of the portfolio completed, both slippage and adverse selection are significantly *lower*. The reason: the disposition of shares across the portfolio is much more balanced than it is in the first example. As a result, both slippage and adverse selection have been minimized.

How we do it

The ability of Vector Partners to minimize the completion rate variance that underlies slippage and adverse selection is rooted in the capacity of our proprietary model to manage the order flow of each stock in the portfolio on an individual basis—and in response to real-time conditions in the market. Our trading algorithms systematically adjust to the alpha of each portfolio, regulating the speed, frequency, size, and price of each order. And because our "limit order" models are passive and incremental, our strategy *throughout* the trading day is to provide liquidity wherever possible, thereby minimizing execution rate variance and, by doing so, minimizing adverse selection.

The overall benefit to you: an individualized trading strategy that lowers your completion costs and protects the risk profile of your portfolio.

(*For more information, visit our website at vectorpartners.com*)